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SUBJECT: JOSE DIRCEU - LULA'S WING-MAN GETS BACK ON TRACK

1. (SBU) SUMMARY. Jose Dirceu is Chief of Staff and most trusted advisor to Brazilian President Lula da Silva. Dirceu's legendary, if peculiar, biography is a window on Brazil's recent history. His machiavellian political skills and decades of fierce loyalty to Lula and the Workers' Party (PT) have been crucial building blocks in their rise to power. But Dirceu is no ideologue, rather he is a skilled and sometimes cynical power-broker willing to change course as circumstances warrant. It was he who orchestrated the PT's move towards the center in recent years and he who has put together the administration's broad coalition in the name of governability. During the 2002 elections and throughout Lula's first year in office, Dirceu was seen as a powerful Svengali pulling strings in the shadows. But a scandal in Dirceu's office in early 2004, coupled with a reorganization of cabinet duties, sidelined him for months and nearly led to his resignation. In the past six months, Dirceu has regained his traction, and is once again involved in the administration's key projects. If he has lost some prestige and is less often in the spotlight, he remains heavily engaged in day-to-day policy making. Nobody is closer to President Lula than Jose Dirceu. END SUMMARY.

FROM HAVANA TO BRASILIA

2. (U) The biography of Jose Dirceu, 58, is made-for-TV material. Attending PUC University in Sao Paulo in the 1960s, he was a leader of the National Student Union until his opposition to the military regime (including organizing massive demonstrations) got him jailed in 1968. He was then among fifteen political prisoners freed in September 1969 in exchange for the release of US Ambassador Charles Elbrick, who had been kidnapped and held for three days by an opposition group. Freed from jail, Dirceu went into exile in Cuba for six years, studying and training in guerilla warfare, befriending Fidel and altering his appearance with plastic surgery. When his enthusiasm for Cuba and armed revolution waned, he returned to Brazil clandestinely in 1975, living underground as a shopkeeper in Parana state. A general amnesty was declared in 1979, so Dirceu restored his appearance and gave up his underground life and family (his wife, whom he divorced, says she never suspected his true identity). In 1980, Dirceu and Sao Paulo union leader Lula da Silva founded the Workers' Party.

3. (U) In the early 1980s, Dirceu held PT leadership posts in Sao Paulo (the PT's center of gravity) at a time when the party was forging its identity amid the many labor, religious, and intellectual currents under its umbrella. He was a leader of the opposition "Diretas Ja!" movement in 1984 that pressed for direct presidential elections and led to the regime's handover of power the next year. In 1989 he coordinated Lula's credible but losing presidential campaign. In 1991-1994 he served in Congress and was active in the corruption inquiries that led to President Collor's resignation. After losing a 1994 race for Sao Paulo governor, he was elected president of the Workers' Party, leading a moderate internal faction called "Articulation" that remains in control of the party to this day. This period marked the beginning of the PT's evolution away from doctrinal rigidity and towards the political center, as Dirceu aggressively formed alliances with a range of parties --including those on the center and right-- depending on local conditions. (Dirceu noted in a recent interview, "When I talked about alliances in 1985, people almost threw me out of meetings. It was me who introduced these ideas to the PT".)

"MODERATION IS A VIRTUE ONLY IF YOU HAVE ALTERNATIVES"

4. (SBU) Since the founding of the PT, Dirceu has never been far from Lula. They share a deep trust and complementary styles: where Lula is an optimistic and charismatic populist with a common touch, Dirceu is a micro-managing politico adept at tugging the levers of power. Both are expert public speakers and engaging in meetings. They share a worldview that is pragmatic and moderate, so they have consciously steered the PT away from its most radical members in the interests of first electability and then governability. This impulse was on display in the 2002 campaign as Lula softened his image ("Lula Lite") and made a concerted effort to connect with the business community.

15. (SBU) In July 2002, as the PT's strong poll numbers frightened the financial markets, it was Dirceu who visited Washington and New York to calm investors by committing a Lula administration to economic orthodoxy. PT leftists grumble that all of this is a sell-out of party traditions, but Dirceu has observed that there is no sense in losing elections through an insistence on clinging to outdated positions. Dirceu has never worn his personal motivations on his sleeve, and it is a challenge to understand what drives him. His explanations for his actions are couched in terms of political strategy rather than deep-felt passions: the line between the public and private Jose Dirceu has never been clearly-drawn.

"PRIME MINISTER" IN YEAR ONE

16. (SBU) Before Lula's January 2003 inauguration, Dirceu took charge of the transition team's Political Council, putting together the coalition and the cabinet. True to form, his behind-the-scenes dealings brought conservative parties (PP, PL, PTB) into Lula's camp, and eventually reeled in the large PMDB as well. The coalition is fractious but has a majority in Congress and a decent record of delivering Lula's priorities (in two years, the administration has passed six constitutional amendments requiring three-fifths majorities).

17. (SBU) As "Minister-Chief of the Civilian Household" (i.e., Chief of Staff) and first among equals in the cabinet, Dirceu spent the administration's first year with a broad mandate to push legislation through Congress, lead the GoB's innumerable policy councils (many of which have mercifully faded away), sort out turf battles between cabinet ministers, negotiate with mayors and governors, and whisper advice into Lula's ear. His portfolio was so broad that by late 2003, the press was calling him "Prime Minister", a profile that left him vulnerable to jealousies within the government, though the only GoB official to rival his stature is Finance Minister Palocci. Dirceu's heavy responsibilities, coupled with his tendency to micro-manage, left him overburdened. So as part of a wider cabinet shuffle in January 2004, Lula farmed out some of his duties, bringing in a second cabinet-level official, Aldo Rebelo, to be "Political Coordinator" (i.e., Lula's chief liaison with congress).

WALDOMIRO CHANGES EVERYTHING

18. (SBU) The new arrangement lasted only a few weeks. Dirceu's world was rocked on 13 February 2004 when a scandal broke revealing that a longtime friend and senior advisor on his staff, Waldomiro Diniz, had been soliciting bribes from a numbers racketeer and possibly funneling cash into PT slush funds. Waldomiro was fired and is still under police investigation. While apparently not involved in the misdeeds, Dirceu suffered grievously --both personally and politically. Some pundits pointed out that even if he was not implicated, they would not be surprised to find Dirceu involved in illicit campaign funding. (N.b., In a separate case, there are still unanswered questions about Dirceu's possible knowledge of a corruption scheme in the city of Santo Andre, Sao Paulo that led to the murder of Mayor Celso Daniel in 2002. Allegedly, some of the money skimmed off city contracts found its way into PT campaigns.) For seven weeks the Waldomiro scandal was front-page news, leaving Dirceu anguished. Lula reportedly turned down his offers to resign several times. Everyone from opposition politicians to the Chief Justice of the Supreme Court urged him to step down, and the scandal echoed for months, contributing to a steep dive in Lula's approval ratings and a series of defeats in Congress.

BACK IN THE GAME

19. (SBU) By July, Dirceu got back to work as attention turned to the October municipal elections. He actively stumped for PT mayoral candidates (including the son from his first marriage, Zeca Dirceu, who was elected mayor of the town where Dirceu lived clandestinely until 1979). His political recovery is an ongoing project, but over the past six months he has regained influence by a combination of hard work, attention to detail, and avoiding the limelight. As Chief of Staff, there are few policy areas in which he is not involved. For example, in late 2004, Dirceu could be found meeting with Goldman Sachs officials about Brazil's investment climate, assessing the Mideast peace process at Arafat's funeral, previewing the restructuring of Varig airline debt, and describing plans to create a unified GoB tax and collections agency. For next year, he is already pushing for a boost in the minimum wage and heading up a working group on agrarian reform (both hot topics here). Dirceu will address foreign investors at Davos.

110. (SBU) December found Dirceu back on top, taking charge of the administration's two key end-of-year political projects: negotiations about the schizophrenic PMDB's place in the coalition and piecing together the cabinet shuffle expected

in late January. IstoE magazine came to the same conclusion in naming Dirceu its 2004 Man of the Year, as did journalists and pundits with whom we talked. And Lula --with his love for soccer metaphors-- recently called him "Captain of the Team". Despite the New York Times' view in December that Palocci has surpassed Dirceu in influence, the two Ministers inhabit different spheres that are not really comparable. Palocci, the technocrat, steers the macro-economy, including controversial issues such as interest rate policy, while Lula looks to Dirceu for guidance on everything else. The President's daily agendas reveal that when Dirceu and Lula are both in town, Dirceu has up to an hour alone with the boss nearly every day, as well as joining in most of his meetings. And he is no shrinking violet. Though his public profile is lower than in the past, Dirceu and PT party president Jose Genoino are the two people whom Lula sends out to engage in partisan battles and volley opposition barbs.

COMMENT - "TAKING FORTUNE BY THE ARM"

11. (SBU) Jose Dirceu is a key, though controversial, figure in modern Brazilian history. Perhaps best viewed in the oblique half-light rather than head-on, somewhere behind Lula's surprising trajectory and the unseen machinations of party politics. Dirceu is not personally corrupt, but as questions about the Waldomiro and Celso Daniel cases illustrate, there is a lingering sense that he will stoop as low as necessary to achieve his goals --and the success of Lula and the Workers' Party have been his life's work. One observer commented that Dirceu seems blessed by fortune, as his choices invariably prove successful. But this oversimplifies: Dirceu often forces fate by simply outworking his opponents. An obsessive planner (he reportedly knew with uncanny accuracy which departments in which universities supported his 1969 bid to head the National Student Union); unsentimental (he jettisoned his first wife and child along with the rest of his clandestine identity when he was amnestied in 1979); and unafraid of change (Dirceu himself says that he has started his life over many times and can do it again if necessary). His success is no accident of fate.

12. (SBU) Jose Dirceu is clearly happy to be back in the mix. In a December 28 interview, he pronounced himself satisfied doing the administration's policy coordination. In the next two years he plans to focus on Lula's national development goals. There is little doubt that he will also be a key advisor in Lula's 2006 reelection campaign and in a possible second administration. Longer-term, some who know him say that Dirceu harbors presidential ambitions, though at age 58 and assuming Lula remains in office through 2010, he may be squeezed out by the PT's next generation. Yet nobody would count him out: if he is not President, perhaps when Lula's era is over, Dirceu will settle into a Congressional seat or try another run at Sao Paulo's governorship.
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